



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT OF THE CABINET FOR WORKFORCE DEVELOPMENT**

**Made as Part of the Statewide Single Audit
of the Commonwealth of Kentucky**

For the Year Ended June 30, 2000

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EXECUTIVE SUMMARY
REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT OF THE CABINET FOR WORKFORCE DEVELOPMENT
FOR THE YEAR ENDED JUNE 30, 2000

BACKGROUND:

The Federal Single Audit Act of 1984, subsequent amendments, and corresponding regulations, requires the auditing of financial statements and the compliance and internal controls applicable to federal moneys received by the Commonwealth of Kentucky. To comply with these requirements we audited internal controls and compliance at both the central and agency level. This summary is on our audit of one organizational unit of the Commonwealth, the Cabinet for Workforce Development.

EXPENDITURES:

The Cabinet for Workforce Development expended federal awards in the following manner:

- \$406,748,233 in cash from 3 federal grantors

SUMMARY OF AUDITOR'S RESULTS:

Financial Statement Accounts

Compliance: No instances of noncompliance

Internal Control Over Financial Reporting: Three (3) reportable conditions, inclusive of one (1) material weakness; also, two (2) other matters were noted.

Federal Awards And Schedule Of Expenditures Of Federal Awards

Compliance: One instance of noncompliance

Internal Control Over Compliance: Three (3) reportable conditions, none of which are material weaknesses were noted; also, one (1) other matter.

GENERAL TOPICS OF REPORTABLE CONDITIONS:

- Inadequate accounting procedures
- Noncompliance with federal and state laws and regulations
- Lack of supporting documentation
- Inadequate subrecipient monitoring procedures

Agencies With Conditions:

Department/Division With Material Weakness: Division of Unemployment Insurance

Department/Division With Reportable Conditions: Division of Unemployment Insurance and Department for Training and Re-Employment

Department/Division With Noncompliances: Department for Training and Re-Employment

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INTRODUCTION

**CABINET FOR WORKFORCE DEVELOPMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2000**

Introduction

The Auditor of Public Accounts (APA), acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Schedule of Expenditures of Federal Awards

This report contains the Schedule of Expenditures of Federal awards for the Cabinet for Workforce Development. The Notes to the Schedule of Expenditures of Federal Awards provides more detailed information on certain aspects of the expenditures, such as the amount given to subrecipients.

Since not all state agencies use the Management Administrative Reporting System (MARS) Subsystems for Projects, the APA requested the Cabinet for Workforce Development to prepare worksheets of federal financial assistance. The source of these worksheets included MARS, agency accounting systems, agency manual records, etc. The CWD were also asked to reconcile the worksheets to MARS and to federal grantor reports. These worksheets were compiled into the accompanying Schedule of Expenditures of Federal Awards.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs consists of three sections:

- Summary of Auditor's Results
- Financial Statement Findings
- Federal Award Findings and Questioned Costs

Each audit finding number and the audit finding's classification (as reportable, material) is provided as part of the audit opinion summary. Major programs audited are listed on the Summary of Auditor's Results. The second part is the Financial Statement or Other Matter Findings. This part lists all of the audit findings related to the financial statements. The third part, the Federal Award Findings and Questioned Costs, lists all findings related to federal awards. Generally, the state agency, CFDA number and program, federal agency, pass-through agency, and the compliance area the finding relates to are presented. In both parts two and three, reportable conditions and reportable instances of noncompliance are presented first, then material weaknesses and material instances of noncompliance, followed by other matters.

**CABINET FOR WORKFORCE DEVELOPMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Summary Schedule of Prior Audit Findings

Audit findings reported in the Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 1999 (as well as any previous finding which have not been resolved) are reported in the agency's Summary Schedule of Prior Audit Findings for the fiscal year ended June 30, 2000. If the APA determines the agency's Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit finding, a new audit finding is issued and reported in the Schedule of Findings and Questioned Costs.

The Summary Schedule of Prior Audit Findings is organized based on whether the prior year finding was reportable, material, or other matter. The findings of each classification are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid or does not warrant further action. If a finding has been re-classified, from material to reportable for instance, the finding will appear in the material finding section of the summary schedule and the comment will indicate the reclassification. In the following year, the finding will appear in the reportable section of the summary schedule.

Audit Approach

Our audit was conducted in accordance with the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, *Government Auditing Standards* (also referred to as the Yellow Book), and generally accepted auditing standards. The scope of the statewide single audit for the year ended June 30, 2000, included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with generally accepted government auditing standards;
- An audit of supplementary Schedule of Expenditures of Federal Awards in accordance with generally accepted government auditing standards;
- An audit of the internal control applicable to the Cabinet for Workforce Development, to the extent necessary to consider and test the internal accounting and administrative control systems as required; and
- A selection and testing of transactions and records relating to each major federal financial assistance program to obtain reasonable assurance that the Cabinet for Workforce Development administers its major federal financial assistance programs in compliance with laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the Commonwealth's general-purpose financial statements.

**CABINET FOR WORKFORCE DEVELOPMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Audit Approach (Continued)

The APA conducted the audit of internal controls, focusing on the following objectives:

- Considering the internal control in order to determine auditing procedures on the general-purpose financial statements of the Commonwealth.
- Determining if the Cabinet for Workforce Development has internal controls to provide reasonable assurance that it is managing the federal assistance programs in compliance with applicable laws and regulations.

List Of Abbreviations/Acronyms Used In This Report

AFR	Annual Financial Report
APA	Auditor of Public Accounts
CAFR	Comprehensive Annual Financial Report
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CWD	Cabinet for Workforce Development
DES	Department of Employment Services
DOL	Department of Labor
DTR	Department of Training and Re-employment
ETA	Employment and Training Administration
FAC	Finance and Administration Cabinet
FMG	Financial Management Guide
FY	Fiscal Year
FY	Fiscal Year Ended
IT	Information and Technology
JTPA	Job Training Partnership Act
KRS	Kentucky Revised Statutes
LLMA	Local Labor Market Area
LWIA	Local Workforce Investment Area
MARS	Management Administrative Reporting System
N/A	Not Applicable
NCKC	North Central Kentucky Council
OMB	Office of Management and Budget
OTR	Office of Training and Re-employment
PBU	Program Budgetary Unit

**CABINET FOR WORKFORCE DEVELOPMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

List Of Abbreviations/Acronyms Used In This Report (Continued)

SCUF	Service Capacity Upgrade Fund
SDA	Service Delivery Area
SSG	Substate Grantee
SSWAK	Statewide Single Audit of Kentucky
STARS	Statewide Accounting and Reporting System
TENCO	Ten Counties
UI	Unemployment Insurance
U.S.	United States
WFDC	Workforce Development Cabinet
WIA	Workforce Investment Act

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2000**

Federal Grantor CFDA # Program Title		Pass- Through Grantor's #	Expenditures	
			Cash	Noncash
<u>U.S. Department of Labor</u>				
Direct Programs:				
17.002	Labor Force Statistics	NA	\$ 770,726	
17.203	Labor Certificate for Alien Workers	NA	345,740	
17.207	Employment Service (Note 5)	NA	11,541,001	
17.225	Unemployment Insurance (Note 2) (Note 4) (Note 5)	NA	278,866,096	
17.245	Trade Adjustment Assistance – Workers	NA	8,109,312	
17.246	Employment And Training Assistance – Dislocated Workers (Note 2) (Note 5)	NA	6,976,868	
17.249	Employment Services and Job Training Pilots – Demonstrations and Research (Note 5)	NA	365,359	
17.250	Job Training Partnership Act (Note 2) (Note 5)	NA	24,262,993	
17.801	Disabled Veterans’ Outreach Program	NA	704,812	
17.804	Local Veterans’ Employment Representative Program	NA	865,250	
NA	National Occupational Information Coordinating Committee (Note 6)	NA	151,510	
Passed Through From Cabinet for Families and Children:				
17.253	Welfare-To-Work Grants to States and Localities (Note 3)	NA		
<u>Subtotal U.S. Department of Labor</u>			<u>\$332,959,667</u>	
<u>U.S. Department of Education</u>				
Direct Programs:				
84.002	Adult Education – State Grant Program (Note 5)	NA	\$ 7,381,927	
84.048	Vocational Education – Basic Grants to States (Note 2) (Note 5)	NA	9,394,256	
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States (Note 2) (Note 5)	NA	46,602,924	
84.161	Rehabilitation Services – Client Assistance Program	NA	124,806	
84.169	Independent Living – State Grants (Note 5)	NA	343,125	

See accompanying notes to the Schedule of Expenditures of Federal Awards

**COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2000**

Federal Grantor CFDA # Program Title	Pass- Through Grantor's #	Expenditures	
		Cash	Noncash
<u>U.S. Department of Education (Continued)</u>			
Direct Programs (Continued):			
84.177 Rehabilitation Services – Independent Living Services for Older Individuals Who Are Blind (Note 5)	NA	\$ 239,043	
84.187 Supported Employment Services For Individuals With Severe Disabilities	NA	518,130	
84.224 Assistive Technology (Note 5)	NA	352,975	
84.243 Tech- Prep Education (Note 5)	NA	1,465,519	
84.265 Rehabilitation Training – State Vocational Rehabilitation Unit In-Service Training	NA	105,953	
84.278 School To Work Implementation Grant (Note 5)	NA	<u>1,135,757</u>	
<u>Subtotal for U.S. Department of Education</u>		<u>\$67,664,415</u>	
<u>U.S. Department of Health and Human Services</u>			
Passed Through From Cabinet for Families and Children:			
93.558 Temporary Assistance For Needy Families (Note 5)	NA	6,065,151	
Passed Through From Cabinet for Health Services:			
93.958 Block Grants For Community Mental Health Services	NA	<u>59,000</u>	
<u>Subtotal for U.S. Department of Health and Human Services</u>		<u>6,124,151</u>	
<u>SUBTOTAL WORKFORCE DEVELOPMENT CABINET</u>		<u>\$406,748,233</u>	

See accompanying notes to the Schedule of Expenditures of Federal Awards

**CABINET FOR WORKFORCE DEVELOPMENT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000**

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Purpose of the Schedule - OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance.

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133. As defined in the Circular, federal financial assistance “. . . means assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals . . .” It includes awards received directly from federal agencies, or indirectly through other units of state and local governments. The accompanying schedule includes cash federal financial assistance programs. The Cabinet for Workforce Development had no noncash federal financial assistance for the year ended June 30, 2000. Those programs that have not been assigned a catalog number, or for which the catalog number was not available, have been shown either at the bottom of the relevant federal grantor subheading or under the “Other Federal Assistance” subheading.

Reporting Entity - The accompanying schedule includes all federal financial assistance programs administered by the Cabinet for Workforce Development. The Cabinet for Workforce Development is an organizational unit of the Commonwealth as defined by KRS 12.010 and is included in the Commonwealth entity for financial reporting purposes.

Basis of Accounting - The cash expenditures on the accompanying schedules are presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed.

KRS 45.229 provides that the Finance and Administration Cabinet may, “. . . for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The Commonwealth’s general-purpose financial statements are presented on the accrual/modified accrual basis of accounting. Therefore, the schedule may not be directly traceable to the general-purpose financial statements in all cases.

**CABINET FOR WORKFORCE DEVELOPMENT
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

Inter-agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the Cabinet for Workforce Development's Schedule of Expenditures of Federal Awards:

- (a) Federal moneys may be received by one state agency (primary state agency – recipient) and passed through to another state agency (secondary state agency – subrecipient) where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported in the schedule as follows:
 - Under the primary state agency, the federal program is reported as a direct program. However, the transfer of money to the secondary state agency is not included in the primary state agency's expenditures.
 - Under the secondary state agency, the federal program is reported as a pass-through program. The expenditure of the transferred moneys is reported in the secondary agency's expenditures.

Because the schedule excludes federal financial assistance related to state universities, when a state agency passes federal money to a state university, this is reported in the schedule as an expenditure.

- (b) Federal moneys received by a Cabinet for Workforce Development and used to purchase goods or services from another state agency are reported in the schedule as an expenditure.

Note 2 - Type A Programs

Under the provisions of OMB Circular A-133, a Type A program for the Commonwealth means any program for which total expenditures of federal awards exceeded \$14 million for fiscal year 2000. Clusters are a group of closely related programs sharing common compliance requirements. A cluster of programs must be considered as one program for determining Type A programs.

**CABINET FOR WORKFORCE DEVELOPMENT
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

Note 2 - Type A Programs (Continued)

The Cabinet for Workforce Development had the following cash programs which met the Type A program definition for the year ended June 30, 2000, some of which were administered by more than one state agency. The Cabinet for Workforce Development identified two clusters, which included more than one federal program, among the Type A programs. These Type A programs and clusters were:

CFDA #	Program Title	Expenditures
17.225	Unemployment Insurance	\$278,866,096
17.246	Employment and Training Assistance - Dislocated Workers	6,976,868 a
17.250	Job Training Partnership Act	24,262,993 a
84.048	Vocational Education - Basic Grants to States	9,394,256 b
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	<u>46,602,924</u>
Total Type A Programs		<u>\$366,103,137</u>

Identified clusters include:

a – JTPA Cluster

b – CFDA 84.048 passed through \$6,992,585 to the Kentucky Department of Education, which raised total expenditures over the \$14 million threshold.

Note 3 - Zero Expenditure Programs

These programs had no expenditures during the year ended June 30, 2000. They include programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also include programs with activity other than expenditures.

Note 4 - Unemployment Insurance (CFDA #17.225)

The Commonwealth paid out \$256,954,624 in benefits during the year ended June 30, 2000. The amounts shown on the accompanying Schedule of Expenditures of Federal Awards reflect both the amount expended for benefits from the Trust Fund and an additional \$21,911,472 of federal funds expended for administration of the program, resulting in a combined total of \$278,866,096 federal expenditures.

**CABINET FOR WORKFORCE DEVELOPMENT
NOTES TO THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2000
(Continued)**

Note 5 - Subrecipient Activity

A subrecipient is a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program. The following list summarizes the amount of federal funds sent to subrecipients.

CFDA #	Federal Program Name	Amount Sent
17.207	Employment Service	\$ 258,637
17.225	Unemployment Insurance	9,543
17.246	Employment and Training Assistance - Dislocated Workers	5,195,667
17.249	Employment Services and Job Training Pilots - Demonstrations and Research	295,270
17.250	Job Training Partnership Act	23,363,315
84.002	Adult Education - State Grant Program	6,820,888
84.048	Vocational Education - Basic Grants to States	7,650,146
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	497,245
84.169	Independent Living - State Grants	13,775
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	39,873
84.224	Assistive Technology	162,077
84.243	Tech-Prep Education	1,310,709
84.278	School to Work Implementation Grant	1,127,341
93.558	Temporary Assistance For Needy Families	1,813,399
Total Amounts Sent to Subrecipients		<u>\$ 48,557,885</u>

Note 6 - National Occupational Information Coordinating Committee (No CFDA)

There is no CFDA number associated with this program. In the past, the program has been reported separately. However, this program is now being reported under the federal grantor, U.S. Department of Labor.

REPORTS ON COMPLIANCE AND ON INTERNAL CONTROL



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Allen D. Rose, Secretary
Cabinet for Workforce Development

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The General-Purpose
Financial Statements Performed In Accordance With *Government Auditing Standards*

As part of the audit of the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 2000, we have audited cash, receipts, receivables, expenditures, payables, and payroll of the Cabinet for Workforce Development, an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, and have issued our report thereon dated February 28, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commonwealth's financial statements are free of material misstatement, we performed tests of the Cabinet for Workforce Development's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cabinet for Workforce Development's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The General-Purpose
Financial Statements Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting (Continued)

deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Cabinet for Workforce Development's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 00-CWD-1, 00-CWD-2, 00-CWD-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 00-CWD-3 to be a material weakness. We noted other matters involving the internal control over financial reporting that we have reported to the management of the Cabinet for Workforce Development and are described in the accompanying schedule of findings and questioned costs of this report.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

February 28, 2001



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Allen D. Rose, Secretary
Cabinet for Workforce Development

Report On Compliance With Requirements Applicable To Each
Major Program And On Internal Control Over Compliance In Accordance With
OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards

Compliance

As part of the Statewide Single Audit of the Commonwealth of Kentucky, we have audited the compliance of the Cabinet for Workforce Development, an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. The Cabinet for Workforce Development's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Cabinet for Workforce Development's management. Our responsibility is to express an opinion on the Cabinet for Workforce Development's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cabinet for Workforce Development's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Cabinet for Workforce Development's compliance with those requirements.

Report On Compliance With Requirements Applicable To Each
Major Program And On Internal Control Over Compliance In Accordance With
OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards
(Continued)

Compliance (Continued)

In our opinion, the Cabinet for Workforce Development complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 00-CWD-6.

Internal Control Over Compliance

The management of the Cabinet for Workforce Development is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Cabinet for Workforce Development's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Cabinet for Workforce Development's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 00-CWD-6, 00-CWD-7, and 00-CWD-8.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted another matter involving the internal control over compliance that we have reported to the management of the Cabinet for Workforce Development and is described in the accompanying schedule of findings and questioned costs of this report.

Report On Compliance With Requirements Applicable To Each
Major Program And On Internal Control Over Compliance In Accordance With
OMB Circular A-133 And On The Schedule Of Expenditures Of Federal Awards
(Continued)

Schedule of Expenditures of Federal Awards

We have audited the general-purpose financial statements of Commonwealth as of and for the year ended June 30, 2000, and have issued a report thereon dated February 28, 2001. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements taken as a whole.

As described in Note 1, the schedule of expenditures of federal awards of the Cabinet for Workforce Development is intended to present only that portion of the expenditures of federal awards of the Commonwealth that is attributable to the transactions of the Cabinet for Workforce Development.

The general-purpose financial statements of the Commonwealth are prepared on an accrual/modified accrual basis of accounting. However, as described in Note 1, the schedule of expenditures of federal awards of the Cabinet for Workforce Development is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the schedule of expenditures of federal awards is not intended to present the expenditures of federal awards in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effect of the application of a different basis of accounting as explained above, the schedule of expenditures of federal awards of the Cabinet for Workforce Development is fairly stated, in all material respects, in relation to the Commonwealth's general-purpose financial statements taken as a whole.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

July 27, 2001

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statement Accounts

Financial Statement Accounts: We issued an unqualified opinion on the Commonwealth's general-purpose financial statements, which include the Cabinet for Workforce Development, as of and for the year ended June 30, 2000.

Internal Control Over Financial Reporting: Our consideration of the Cabinet for Workforce Development's internal control over financial reporting disclosed three reportable conditions. We consider one of these to be material. The reportable conditions, which were disclosed during our audit of the general-purpose financial statements of the Commonwealth of Kentucky, are applicable to the Cabinet for Workforce Development's Department for Unemployment Insurance. Our audit also disclosed other matters relating to the internal control over financial reporting for the Cabinet for Workforce Development.

Compliance: The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Federal Awards and Schedule of Expenditures of Federal Awards

Compliance: We issued an unqualified opinion on the Cabinet's compliance with the requirements applicable to each of its major federal programs. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133. This finding is applicable to the Department of Training and Re-employment.

Internal Control Over Compliance: Our consideration of the Cabinet for Workforce Development's internal control over compliance disclosed three reportable conditions. We believe that none of these reportable conditions are material weaknesses. The reportable conditions, which were disclosed during our audit, and are applicable to the Department of Training and Re-employment and Unemployment Insurance programs. Our audit also disclosed an other matter relating to the internal control over compliance for the Cabinet for Workforce Development.

The reportable conditions and other matter relative to the Cabinet's internal control over compliance are presented in detail in Section 3 - Federal Award Findings and Questioned Costs, of the Schedule of Findings and Questioned Costs.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Federal Awards and Schedule of Expenditures of Federal Awards (Continued)

Schedule of Expenditures of Federal Awards: We issued a qualified opinion on the Cabinet's Schedule of Expenditures of Federal Awards because the schedule was presented on the basis of accounting that is not in conformance with accounting principles generally accepted in the United States of America as described in Note 1 of the schedule. The opinion was issued in relation to the Commonwealth's general-purpose financial statements taken as a whole.

Identification of Major Programs Audited

OMB Circular A-133 defines a major program as "a Federal program determined by the auditor to be a major program in accordance with section __.520 or a program identified as a major program by the Federal awarding agency or pass-through entity in accordance with section __.215(c)." Section __.520 states, "The auditor shall use a risk-based approach to determine which Federal programs are major programs." The following is a list of major Type A programs audited:

CFDA #	Program Title	Expenditures
17.225	Unemployment Insurance	\$278,866,096
17.246	Employment and Training Assistance – Dislocated Workers	6,976,868 a
17.250	Job Training Partnership Act	24,262,993 a
84.048	Vocational Education – Basic Grants to States	9,394,256 b
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	<u>46,602,924</u>
	Total Type A Programs Audited	<u>\$ 366,103,137</u>

a – JTPA Cluster

b – CFDA 84.048 passed through \$6,992,585 to the Kentucky Department of Education, which raised total expenditures over the \$14 million threshold. Only Type A programs were audited for FY 2000.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Dollar Threshold Used to Distinguish Between Type A and Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B programs was \$14 million. No Type B Programs were audited in fiscal year 2000.

Auditee Qualify as Low-Risk Auditee?

The Commonwealth did not qualify as a low-risk auditee.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

**Reportable Conditions Relating To Internal Controls And/Or Reportable Instances
Of Noncompliance:**

**FINDING 00-CWD-1: The Division Of Unemployment Insurance Should Perform
Regular Cash Reconciliations To Safeguard Assets**

During the FY 2000 Unemployment Insurance Cash audit, we found reconciliations to the bank and FAC MARS reports are still not being completed. The agency had not performed reconciliations to the bank for the Tax Collections cashbook at all and for the Benefits cashbook after October 1999. They had attempted reconciliations for both cashbooks to MARS; however, for most months there were undetermined amounts unreconciled.

We conclude the agency's response to the prior year audit finding has been materially misrepresented since management has not corrected these deficiencies.

The auditors noted an example of the effect of lack of reconciliations. The items listed below caused cash to be misstated at year-end.

- The auditors noted three instances where balances for certain types of receipts and disbursements had not been included. Since these monies were reimbursed periodically, the agency believed they did not affect the cash balance. This caused the balance to be understated by \$732,885.
- A transfer to the Service Capacity Upgrade Fund (SCUF) occurred before June 30. However, it was not recorded on the cashbook until July. This caused the balance to be overstated by \$1,587,175.
- Cash was understated by \$2,155 because a transaction was not recorded until the following month.
- A transfer in the amount of \$10,957 between funds 6200 and 6210 was not posted to the cashbook.

The net effect of these misstatements caused cash to be overstated by \$852,134.

The lack of frequently recurring reconciliations allows errors or misappropriations or both to go uncorrected indefinitely. It also interferes with management's ability to assure the accuracy of the agency's cash balances and make daily decisions. The agency also could be preparing materially misstated financial reports for the federal government.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

**Reportable Conditions Relating To Internal Controls And/Or Reportable Instances
Of Noncompliance: (Continued)**

**FINDING 00-CWD-1: The Division Of Unemployment Insurance Should Perform
Regular Cash Reconciliations To Safeguard Assets (Continued)**

Routine reconciliations may identify errors or misappropriations or both that can be corrected in a timely manner. Financial statements and reports with reconciled balances are more likely to accurately represent the position of the agency. Management and daily users of the cashbooks can make better decisions with accurate cash balances.

Recommendation

We recommend the following:

- Reconciliation responsibilities be assigned to someone independent of initiating and recording transactions.
- All past reconciliations be completed.
- Reconciliations to the cashbook and MARS be performed monthly.
- Management review reconciliations regularly to assure performance and monitor results.

Management's Response and Corrective Action Plan

The agency is in agreement with the recommendations of the State Auditor. We are currently working on reconciling the back years to the state accounting system and respective bank statements with the plan to have the task completed by the end of April. It will be the Trust Fund Coordinator responsibilities to do daily reconciliation on the cashbooks. The Director of Division of Administration and Financial Management will have the responsibility for reconciling the cashbooks to MARS Report 2550 and forwarding a copy of the reconciliation report to the Director of Unemployment Insurance for his notification and review on a monthly basis. This will address the concerns expressed of having someone other than the person initiating and recording transactions into the cashbook doing the reconciliation.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating To Internal Controls And/Or Reportable Instances Of Noncompliance: (Continued)

FINDING 00-CWD-2: The Division Of Unemployment Insurance Should Strengthen Controls Over Cash

During the FY 2000 audit, we found serious deficiencies still exist in the internal control over cash at Unemployment Insurance. The Division of Unemployment Insurance is responsible for the Unemployment Insurance Trust Fund. As of June 30, 2000, the trust fund had a balance of over \$700,000,000.

We noted similar deficiencies had been occurring since 1998. Management responded that they would begin corrective actions. We noted the following during our preliminary review of internal controls and documented them during our transaction review.

- Authority to initiate transactions, make cashbook entries and adjustments, and reconcile the cashbook is given to one person.
- Access to the cashbook is not limited.
- Management does not monitor the accounting process.

We conclude the agency's response to the prior year audit finding has been materially misrepresented since management has not corrected these deficiencies.

Due to the findings listed above, management severely lacks the ability to detect and correct posting errors or misappropriation or both of funds on a timely basis. In addition, management does not monitor the process to assure duties are being performed. In this case, errors and misappropriations can go undetected indefinitely.

Effective internal control includes segregation of duties to ensure the detection of errors and misappropriations and safeguard agency assets. Management oversight gives assurance assigned duties are being executed and financial reports are accurate.

Recommendation

We recommend the following:

- Duties be segregated in the agency so that no one person has authority to initiate, record, and reconcile accounting records.
- Access be limited to the cashbooks so only authorized people can record or adjust entries and an audit trail be maintained.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating To Internal Controls And/Or Reportable Instances Of Noncompliance: (Continued)

FINDING 00-CWD-2: The Division Of Unemployment Insurance Should Strengthen Controls Over Cash (Continued)

Recommendation (Continued)

- The process be monitored by management to assure assigned duties are being completed.
- Reports be periodically reviewed by management to assure accuracy.

Management's Response and Corrective Action Plan

The agency agrees that segregation of duties is important to safeguard agency assets. We will be assigning oversight responsibilities to dedicated staff to verify the reconciliation and develop a report each month that the reconciliation has been completed. The Director of Division of Administration and Financial Management will have the responsibility for reconciling the casebooks to MARS Report 2550 and the bank. A copy of the reconciliation report will be forwarded to the Director of Unemployment Insurance for his notification and review on a monthly basis. We are going to limit access to the different cashbooks based on the individual's duties and responsibilities. Each cashbook will have its own access levels. The level of access range will include view, add, update and delete. The Trust Fund Coordinator will be the only individual with full access to both cashbooks. Management staff will have "view" capabilities in order to monitor the process. Reports will be developed and issued monthly to insure reconciliation is being performed. The reports will include at a minimum: trust fund balance, cashbooks balance, cash drawn down, total benefits paid and MARS Report 2550 balance. Management will have the responsibility to review the reports on a monthly basis.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Material Weakness And/Or Material Instances Of Noncompliance:

FINDING 00-CWD-3: The Division Of Unemployment Insurance Should Implement The Corrective Action Plan To Assure The Closing Package Schedule For Accounts Receivable Is Correct

The agency stated in its FY 1999 corrective action plan, “[t]he Kentucky Electronic Workplace for Employment Services (KEWES) will eliminate the current trial balance process and it should provide complete, timely and accurate report information.” Furthermore, the agency stated, “We will begin to develop a back-up plan to design the necessary program upgrades that will allow us to generate the correct data required for close-out reports in case KEWES does not become operational when planned. Additionally, we will develop procedures to verify the information provided in the closeout.” Based on results of our testing, the agency did not implement any of the corrective action plan. Therefore, we determine this prior year audit finding to be materially misrepresented.

During the course of performing our analytical procedures on accounts receivable, we found a significant increase in the receivable due from reimbursing employers from 1999 to 2000. This amount increased 111% in FY 2000.

The manager of CWD’s Tax Status Branch, in response to inquiries, reported that the trial balance used by the agency’s internal policy analyst to prepare the closing package submitted to FAC had not been reconciled. This trial balance was not completed until November 2000, nearly five months after the end of the quarter. Furthermore, the agency was unable to provide auditors with information to support the Fund 6200 accounts receivable reported on the AFR – 30 and AFR – 32 closing package schedules.

A finding was also issued in FY 1999 because the agency used an unreconciled trial balance of receivables to compile its closing package. The manager informed auditors that FY 2000 delay was caused by a personnel shortage and an extension to the cut off date for the trial balance.

The auditor cannot rely on the controls of the Unemployment Insurance (UI) computer system to provide accurate reports related to employer tax including a trial balance of delinquent contributions. The \$35,935,949 of employer tax receivable reported by the agency was based on an unverified report. The agency was not able to provide information to verify the receivable amount or substantiate adjustment of the reported amount.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Material Weakness And/Or Material Instances Of Noncompliance: (Continued)

FINDING 00-CWD-3: The Division Of Unemployment Insurance Should Implement The Corrective Action Plan To Assure The Closing Package Schedule For Accounts Receivable Is Correct (Continued)

The agency submitted its closing package containing unverified receivable amounts from a trial balance of delinquent employer contributions. This trial balance at June 30, 2000 was not balanced or verified; yet, the agency reported these figures without qualification in the closing package submitted to FAC.

Proper internal control dictates that the outputs of a computer system accurately reflect inputs and that system reports be verified prior to inclusion in external reports such as the FAC closing package.

FAC closing package instructions state that receivables are "the amount of revenue earned in FY 1999-2000 which was not received as of June 30, 2000, and will process as a new year document." The agency has not provided valid evidential matter to support the amounts they reported.

Recommendation

We recommend that the agency submit a closing package that is supported by balanced and verifiable documentation, such as trial balances. Further, we recommend the agency make corrections to computer systems and implement additional system controls as necessary to prevent the submission of information from an unverified trial balance. Future closing package submissions should be based on reconciled data and be readily supported by additional documentation.

Management's Response and Corrective Action Plan

The Department acknowledges we have failed to have in place proper controls for reconciling the Tax Trial Balance. In order to reconcile past trial balances, the Department has employed a former Trust Fund Coordinator to assist in the reconciliation of all outstanding trial balances. In addition, he has made recommendations on the improvement of the process of updating and reconciling the trial balances. The Department is reviewing these recommendations for implementation, if appropriate.

In addition to this hiring, the Department has employed temporary staff to assist in the backlog of data that impacts the tax trial balance. It is our plan that after the backlog is removed the best and most knowledgeable of the temporary employees will be retained by the Division of Unemployment Insurance to ensure

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Material Weakness And/Or Material Instances Of Noncompliance: (Continued)

FINDING 00-CWD-3: The Division Of Unemployment Insurance Should Implement The Corrective Action Plan To Assure The Closing Package Schedule For Accounts Receivable Is Correct (Continued)

Management's Response and Corrective Action Plan (Continued)

the workload stays current throughout the year. The Division of Unemployment Insurance has used its field auditors to assist in the backlog of batch audits and will continue to do so as appropriate. One thing that has complicated; but will ultimately help the process is that we are in the implementation of KEWES. KEWES has impacted the complete tax function from the receipt of UI Tax Form 3 through the reconciliation of the trial balance. As with all major information technology systems, it has not been as efficient as we planned. As a result, we are still experiencing problems with our relationship with Revenue, the process/procedure for reimbursing employers, aging reports, completion of batch audits and reconciliation of out-of-balance wage records which all reflected in the reconciliation of the trial balance. We are anticipating that these problems will not be totally resolved prior to the close out for Fiscal Year 2001. Until we have gone through a close out with KEWES fully implemented, we can not ensure that all of the processes, procedures and steps necessary for a clean close out have been implemented. We have, however, reviewed the processes, procedures and steps to ensure KEWES has been developed correctly; however, development and implementation does not come without "bugs".

One of the enhancements that KEWES has implementation as of March 2001, will greatly assist in the accounting for the account receivable of reimbursing employers. As part of the encoding process by Revenue, a daily report will be generated listing the payments received from reimbursable employers. This report will be forwarded to the Trust Fund Coordinator for reconciliation of the cashbook. Also, appropriate accounts have been established within MARS for each state-reimbursing employer which will allow for journal vouchers to be processed. Both of these actions should help in the reconciliation of the trial balance and cashbook.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Other Matters Relating To Internal Controls And/Or Compliance:

FINDING 00-CWD-4: The Cabinet For Workforce Development Should Implement Controls To Ensure Reported Payables At Fiscal Year End Includes All Significant Payable Types

Auditor's recalculation of penalties and interest payable to the Administrative Fund at fiscal year end indicate that the agency had understated this payable on their FY 2000 AFR-70. In addition, the auditor determined that the agency was violating statute by leaving deposits of penalty and interest receipts in the Unemployment Insurance Trust Fund.

The agency understated accounts payable reported on their AFR-70. Tests by the auditors determined that actual amount of penalties and interest payable at June 30, 2000 was \$768,026, while the agency reported a payable amount of \$349,096 on their FY 2000 AFR-70, a difference of \$418,929. An audit adjustment was made by FAC to the Comprehensive Annual Financial Report that corrected this error.

Further, deposits of penalties and interest were not deposited to the Administrative Fund (Special Revenue Fund - Fund 14, PBU B510) in a timely manner, consistent with KRS 341.295 and KRS 341.835. Collections for the first quarter of the 2000 fiscal year - July, August, and September 1999 - were not transferred until March 2000 nearly six months after the end of the quarter.

KRS 341.295(1) states, "All fines, penalties and interest on delinquent contributions collected under KRS 341.300 shall be credited to the unemployment compensation administration fund The State Treasurer shall maintain a separate record of all money received for the unemployment compensation administration fund under this section."

KRS 341.835 states, "All fines, penalties and interest on delinquent contributions collected under KRS 341.800 to 341.830 shall be credited to the unemployment compensation administration fund to be used for the administration of this chapter."

KRS 341.490(1) states, "There shall be a special fund known as the unemployment insurance fund which shall be administered separate and apart from all public money or funds of this state. This fund shall consist of:

- (a) All contributions, payments in lieu of contributions, and money collected under this chapter, except fines, penalties and interest on delinquent contributions collected under KRS 341.300. . ."

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 00-CWD-4: The Cabinet For Workforce Development Should Implement Controls To Ensure Reported Payables At Fiscal Year End Includes All Significant Payables Types (Continued)

Proper internal control would dictate that the agency have controls in place to comply with statutes requiring these funds to be held separately. Receipts of penalties and interest should be transferred to the Administration Fund as soon as they are identifiable. The agency receives monthly reports that identify deposits received into various categories including penalties and interest. While these reports have not been reconciled they could serve as an estimate of monthly receivables until the quarterly Trial Balances have been reconciled.

Recommendation

We recommend that CWD implement controls to ensure that receipts of penalties and interest are deposited to the Administration Fund when they are able to identify these receipts. Further, we suggest that the agency use the monthly receipt reports that they currently receive to identify receipts and reconcile these monthly reports upon completion of the quarterly Trial Balance reconciliations.

Management's Response and Corrective Action Plan

The agency is in agreement with the recommendations to use the monthly receipts report to identify current penalty and interest paid on delinquent contributions collected and transfer any identified receipts to the administration fund monthly. Once a trial balance is prepared an analysis will be done to see what adjustments need to be made. This adjustment will be made as soon as the analysis is done.

FINDING 00-CWD-5: The Cabinet For Workforce Development Should Implement Controls To Ensure Completeness And Accuracy When Reporting Payables At Fiscal Year End

During review of the CWD's payable closing package form, AFR-70, and supporting documentation, auditors found that the agency had not included an estimate of the amount payable to other states at FY. Auditors first verbally recommended that the agency consider these amounts in determining their estimate during the FY 1998 audit and repeated the verbal recommendation during the FY 1999 audit.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 00-CWD-5: The Cabinet For Workforce Development Should Implement Controls To Ensure Completeness And Accuracy When Reporting Payables At Fiscal Year End (Continued)

Further, the amount payable to Other States was not considered when completing the AFR-70. This amount provided by the Benefits Payment Control Section was based on actual billings received from other states for the second quarter of 2000 for benefits paid prior to June 30.

As a result of this omission, the agency's estimate of payables is materially misstated.

The agency materially understated accounts payable reported on the AFR-70. Tests by the auditors determined that actual payable amount at June 30, 2000 was \$58,089,275, while the agency reported a payable amount of \$56,021,563 on their FY 2000 AFR-70, a difference of more than \$2 million. Payments due to other states for benefits prior to June 30, 2000 were \$2,092,487. An adjustment was made to the CAFR and payables were correctly reported in the financial statements.

The directions for the AFR-70 issued by FAC state that accounts payable . . . will include liabilities incurred for goods received or services performed as of June 30, but for which payment has not been made. These directions also state that benefit payments . . . may require an estimate for the amount of liability at June 30. The estimate should be based on such factors as prior billings and normal lag time of the billing from the provider.

Proper internal control would dictate that the agency have a method for reasonably estimating the amount payable at the end of the fiscal year. This method should incorporate all significant types of payables and be reviewed periodically to determine whether it accurately reflects actual payments made in the subsequent period and be adjusted as necessary.

Recommendation

We recommend that the agency implement controls to ensure that their estimate of payables include all significant payables at year-end. The agency should consider creating formal written procedures for completing closing package forms. Further, estimates should be reviewed by the preparer and management to ensure that they are reasonable and complete.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 00-CWD-5: The Cabinet For Workforce Development Should Implement Controls To Ensure Completeness And Accuracy When Reporting Payables At Fiscal Year End (Continued)

Management's Response and Corrective Action Plan

The agency will implement controls to ensure that their estimate of payables include all significant payables at year end. The Division of Administration and Financial Management will work with Workforce Development Cabinet staff to ensure that all payables are included in the agency's payables. The agency will consider creating formal written procedures for completing closing package forms. The agency will have estimates made by the preparer reviewed by Management to ensure that they are reasonable and complete.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Compliance:

FINDING 00-CWD-6: The Department for Training And Re-Employment Should Comply With JTPA Regulations And OMB Circular A-133 Regarding Resolution Of Subrecipient Audit Findings

Federal Program: CFDA 17.250 - Job Training Partnership Act and
CFDA 17.246 – Employment and Training Assistance – Dislocated
Workers

Federal Agency: U.S. Department of Labor

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: Unknown

During the FY 2000 audit, we tested the audit log maintained by the Department for Training and Re-employment (DTR) (formerly the Office of Training and Re-employment (OTR)) to track subrecipient monitoring related to the required audits of subrecipients. During this review, the auditor noted several incidences in which DTR did not obtain, review, reconcile, and resolve Service Delivery Area (SDA) audits in a timely manner.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Compliance:
(Continued)

FINDING 00-CWD-6: The Department For Training And Re-Employment Should Comply With JTPA Regulations And OMB Circular A-133 Regarding Resolution Of Subrecipient Audit Findings (Continued)

Furthermore, this is a prior year audit finding, which has been noted since the FY 1996 audit of the JTPA program as an other matter comment and was upgraded to a reportable condition in FY 1999. The agency's prior year corrective action plan indicated that the agency take the necessary steps to strengthen controls over monitoring of subrecipient audits. However, our testing indicated that deficiencies within the audit monitoring system had not been corrected.

We tested 10 SDAs which represented 100% of the SDAs listed in the audit log. The results of our testing noted the following deficiencies:

- Three incidences in which DTR did not obtain the SDA audit reports in a timely manner. The receipt of the audit reports in an untimely manner delays the entire resolution process. It also increases the likelihood that subrecipient weaknesses noted in the audit continue for a longer period of time since they are not being addressed.
- One incident in which DTR did not resolve subrecipients' audit report findings in a timely manner. According to the Financial Management Guide and the federal regulations for JTPA, the agency has 180 days to resolve these matters. Again, untimely resolution of audit findings increases the likelihood that subrecipient weaknesses noted continue for a longer period of time since they are not being addressed.
- Ten incidences in which DTR did not receive a cognizant agency letter determining whether the subrecipient audits were in compliance with OMB Circular A-133. The agency completed a technical review of the subrecipient FY 1999 audits, which auditors have accepted as satisfying this requirement. However, auditors have recommended that, in the future, DTR use the "SCX-18: Single Audit Reports Checklist," as this is a more comprehensive review than the checklist currently used by the agency. Adequate review of the audit is necessary to obtain any other assurance that subrecipients complied with OMB Circular A-133, as required by the regulations.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Compliance:
(Continued)

FINDING 00-CWD-6: The Department For Training And Re-Employment Should Comply With JTPA Regulations And OMB Circular A-133 Regarding Resolution Of Subrecipient Audit Findings (Continued)

- Ten incidences in which the agency's records were not reconciled to the SDA's audited financial statements. This should be performed to ensure that the audited financial statements agree with the amounts reported in the agency's grant accounting records. Unreconciled financial statements lead to the potential for federal reporting that does not agree to the financial statements on which an opinion has been given.
- Deficiencies noted during the FY 1999 audit were not corrected.

These repeat findings indicate DTR failed to implement the corrective action plans submitted in each of the past four years. OMB Circular A-133 requires the auditor to follow up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings, and report when the summary schedule of prior audit findings materially misrepresents the status of any prior audit findings. Since the agency has repeatedly failed to implement the corrective action plans submitted, we conclude that the Summary Schedule of Prior Audit Findings for the fiscal year ended June 30, 1999 for CWD has been materially misrepresented.

OMB Circular A-133 states that the funding agency should be sent a copy of the audit report within the *earlier* of 30 days after [the subrecipient's] receipt of the auditor's report(s), or 9 months after the end of the audit period. This requirement is also outlined in the OTR's Financial Management Guide. This requirement is in effect for fiscal years beginning after June 30, 1998; previously the requirement was 13 months. [OMB Circular A-133 Subpart B, Sec 235 (c) (1).]

The regulations of the JTPA program state: "Each entity that receives JTPA program funds and awards a portion of those funds to one or more subrecipients shall: (1) Ensure that each subrecipient complies with the applicable audit requirements; and (2) Resolve all audit findings that impact the JTPA program with its subrecipient and ensure that corrective action for all such findings is instituted within 6 months after receipt of the audit report [re: resolution of findings]." [20 CFR 627.480 (d) (1) and (2).]

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Reportable Conditions Relating To Internal Control And/Or Compliance:
(Continued)

FINDING 00-CWD-6: The Department For Training And Re-Employment Should Comply With JTPA Regulations And OMB Circular A-133 Regarding Resolution Of Subrecipient Audit Findings (Continued)

OMB Circular A-133 states that the pass-through entity should consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records. [OMB Circular A-133; Subpart D Sec 400 (d) (6).]

The OTR Financial Management Guide states: "The SDA is responsible for the reconciliation of the audited financial statements to the JTPA program records maintained in their accounting systems." [OTR FMG, August 1998].

Recommendation

We recommend CWD and DTR implement procedures to ensure compliance with the JTPA/WIA regulations, OMB Circular A-133 and the OTR Guidelines regarding audit resolutions of subrecipients.

Management's Response And Corrective Action Plan

The Department of Training and Re-employment (DTR) is currently in the process of transferring the subrecipient audit review process from the Financial and Program Operations Branch to the Program Compliance and Support Branch. We anticipate this move to result in additional staff being assigned to the review process which will enable us to meet the deadlines imposed by OMB Circular A-133 for receipt and review of the audits as well as resolution of any reported findings.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

**FINDING 00-CWD-7: The Division Of Unemployment Insurance Should Use Valid
And Accurate Supporting Documentation For Reports ETA 191 And ETA 2112**

Federal Program: CFDA 17.225 – Unemployment Insurance

Federal Agency: U.S. Department of Labor

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: Unknown

During the testing of compliance for the Unemployment Insurance reporting requirement, the auditor noted the following exception:

- The ETA 191 and ETA 2112 both rely on the agency cashbook for supporting documentation. The agency cashbook was unreconciled in the financial statement portion of the audit. Therefore, these federal reports are not based on a reliable source of information. The auditor was unable to determine the amount of the error due to the unreconciled cash records.

We noted this as a prior year audit finding, and we conclude the agency response was materially misrepresented since they did not correct this finding as they had stated in its response that reconciliations would be completed by June 30, 2000.

The source data for the federal reports are unreliable agency records. Therefore, the federal government does not receive an accurate assessment of the activity occurring within the Kentucky Unemployment Insurance program.

Proper internal controls dictate that accurate information should be presented when preparing and transmitting federal reports. Thus, reports can be supported by valid and accurate supporting documentation.

Recommendation

We recommend that all current and future federal reports be corrected using valid and accurate supporting documentation of these reports.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 00-CWD-7: The Division Of Unemployment Insurance Should Use Valid And Accurate Supporting Documentation For Reports ETA 191 And ETA 2112 (Continued)

Management's Response And Corrective Action Plan

As the state auditor is aware significant changes have been taken by DES to rectify the problems with the unreconciled back years for Tax and Benefit accounts to the respective bank statements and to the State accounting system. We have changed personnel responsible for doing the Trust Fund accounting. The reconciliation of the tax and benefits accounts back years was completed in April of 2001. DES had to make a one-time adjustment to the Cashbooks. Tax's adjustment was made in April and benefits at June Final 2001. Treasury made adjusting entries in April to bring MARS into balance with the bank once the reconciliations were completed. These adjustments bring the Cashbooks into balance with MARS and the bank. DES waited to make an adjustment in the benefits cashbook at June Final to be sure no outstanding to be processed in MARS. These one time adjustment would bring the ETA 191 and 2112 into balance at the same time the books were brought in line, thus not require a restatement of all old reports.

DES has put into place a daily reconciliation of the Cashbooks. Daily reconciliation of the accounts allows tracking of the flow of all monies coming in and out of the bank. The position and duties has been moved under the Director of Division of Administration. This was to provide for better segregation of duties.

The Division Direct of Financial Management now have the responsibility for reconciling the Cashbooks to MARS Report 2550 (State Accounting System formally STARS) and forwarding a copy of the reconciliation report to the Director of Unemployment Insurance for his notification and review on a monthly basis. This was to address the concerns expressed of having someone other than person initiating and recording transactions into the cashbook doing the reconciliation.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 00-CWD-8: The Department For Training And Re-employment Should Complete The Process Of Reviewing Subrecipient Invoices And Updating MARS To Accurately Reflect Actual WIA Expenditures

Federal Program: CFDA 17.255 – Workforce Investment Act (CFDA 17.250 – JTPA)

Federal Agency: U.S. Department of Labor

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: Unknown

While testing federal reports submitted by DTR for the Workforce Investment Act (WIA) in FY 2000, auditor's learned that expenditure invoices for subrecipients had not been reconciled in a timely manner and MARS had not been updated to reflect actual subrecipient expenditures. Expenditure records in MARS included only records of drawdowns to the subrecipients and did not reflect actual expenditures reported by the local areas in monthly or quarterly invoices.

- MARS did not support expenditure amounts submitted on federal reports.
- Payments to two subrecipients, Louisville-Jefferson and NCKC, were not made on a timely or consistent basis. During tests of allowable expenditures, auditors found three incidents where reimbursement to these subrecipients were not made in a timely manner. Two of the late payments were made three months following receipt of the invoice and one was made six months after receipt of the invoice.
- Failure to reconcile subrecipient invoices on a timely basis could result in undetected errors and potentially the issuance of inaccurate reports and reimbursement of incorrect or unsubstantiated amounts. In addition, this could prevent the agency from reconciling subrecipient audited financials to the agency's records as required by OMB Circular A-133.

Good internal controls dictate that the agency maintain adequate supporting documentation for reports submitted to the federal government. Agency procedures should be established to ensure the accuracy and completeness of data processing and output results. Agency policy requires a quarterly update to MARS to reflect accurate expenditure activity as a result of the subrecipient reconciliations.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 00-CWD-8: The Department For Training And Re-employment Should Complete The Process Of Reviewing Subrecipient Invoices And Updating MARS To Accurately Reflect Actual WIA Expenditures (Continued)

20 CFR 627.425 (a) (1) states, in part, “[t]he financial management system. . . of each recipient and subrecipient shall provide federally required records and reports that are uniform in definition, accessible to authorized Federal and State staff, and verifiable for monitoring, reporting, audit, program management, and evaluation purposes (sections 165(a) (1) and (2), and 182).”

OMB Circular A-133 states that the pass-through entity should consider whether subrecipient audits necessitate adjustment of the pass-through entity’s own records. [OMB Circular A-133; Subpart D Sec 400 (d) (6).]

Recommendation

We recommend DTR complete the process of reviewing subrecipient invoices and updating MARS to accurately reflect actual WIA expenditures. Further, we recommend the agency implement additional controls or procedures necessary to ensure the timely update of MARS and payment of subrecipients.

Management’s Response And Corrective Action Plan

The Department of Training and Re-employment (DTR) agrees with the finding in that the subrecipient invoices submitted by the local Workforce Investment Areas (LWIAs), form DTR-38, Quarterly Cash Reconciliation/Invoice, were not reconciled to MARS for FYE June 30, 2000.

However, we disagree with the auditor’s contention that reconciling the subrecipient invoices to MARS will result in the subrecipients’ actual expenditures being stated correctly in MARS to support the federal reports for the following reasons:

The LWIAs draw cash from the State via wire transfers to cover their expenses incurred for all grants that are currently open. If an LWIA draws cash in excess of the amount needed to cover current expenditures (this happens on a regular basis since some wire transfer request are based on estimates) then the MARS system will indicate more expenses incurred than the quarterly

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 00-CWD-8: The Department For Training And Re-employment Should Complete The Process Of Reviewing Subrecipient Invoices And Updating MARS To Accurately Reflect Actual WIA Expenditures (Continued)

- (a) *LWIA invoices. The difference will be the amount of excess cash that has been drawn down.*
- (b) *In those instances where an LWIA incurs and reports more expenses on the quarterly invoices than they have drawn cash through MARS to cover, then the MARS system will indicate less expenses incurred than the quarterly LWIA invoices indicate.*

Currently, DTR accumulates the wire transfers, expenditures and amounts obligated as reported by the LWIAs through the quarterly invoices into a statewide grant expenditure worksheet by individual grant. This worksheet is reconciled to MARS and serves as supporting documentation for the quarterly federal reports.

To correct the finding DTR will reconcile the LWIA quarterly invoices for June 30, 2000 to the wire transfer amounts recorded in MARS and make the necessary adjustments to our records to properly state the amount of wire transfers within the respective grants.

DTR will strive to process the payment of invoices for Louisville-Jefferson and NCKC on a more timely basis during the next fiscal year. It should be noted that both of these subrecipients began drawing cash for the WIA program via the wire transfer system effective April 2001 and will not be submitting invoices for reimbursements after that date.

DTR agrees with the finding. Once the corrective actions outlined above have been implemented, this situation should be alleviated.

Auditor's Reply

Auditors disagree with the agency's contention that updating MARS with LWIA quarterly invoices will not result in MARS accurately reflecting expenditures. When the LWIAs drawdown funds, MARS reflects only the drawdown amount. The LWIAs are required to submit quarterly cash reconciliations detailing actual expenditures during the period. DTR has updated their grant report, an internal accounting record, to reflect these actual expenditures during FY 2000.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 00-CWD-8: The Department For Training And Re-employment Should Complete The Process Of Reviewing Subrecipient Invoices And Updating MARS To Accurately Reflect Actual WIA Expenditures (Continued)

Auditor's Reply (Continued)

Federal reports were compiled using the grant report; however, the grant report is not the official accounting record. Despite the agency's contention that the grant report is reconciled to MARS the federal reports could not be verified with MARS.

FINDING 00-CWD-9: The Department For Training And Re-employment Should Review Procedures Currently In Place And Implement Procedures To Ensure All Monitoring Reports Are Issued In A Timely Manner

Federal Program: CFDA 17.255 – Workforce Investment Act

Federal Agency: U.S. Department of Labor

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: Unknown

During testing of subrecipient monitoring reports, the auditor noted several incidences in which the monitoring reports were not issued on a timely basis or subrecipient responses were not received on a timely basis. The timeliness of reports and responses constitute a control weakness and it violates the Department for Training and Re-employment (DTR) policies regarding monitoring and reporting.

Auditors also issued a finding (98-WFDC-12) in the FY 1998 audit regarding the timeliness of monitoring reports and subrecipient responses and issued a written recommendation in the FY 1999 audit related to similar findings.

We found two incidences in which initial reports were not issued within sixty days of the issuance of DTR's preliminary report. The initial reports that were found not to be timely included the reports for Green River Local Workforce Investment Area (LWIA) and Buffalo Trace (TENCO) LWIA.

Auditors found that one final report was not issued within 30 days after the LWIA response to DTR's initial determination. The final report found not to be timely was for Buffalo Trance (TENCO) LWIA.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 00-CWD-9: The Department For Training And Re-employment Should Review Procedures Currently In Place And Implement Procedures To Ensure All Monitoring Reports Are Issued In A Timely Manner (Continued)

The auditor determined that two responses from LWIAs were not received on a timely basis. The tardy responses included Northern Kentucky LWIA's response to the preliminary report and Buffalo Trace (TENCO) LWIA's response to the Initial Determination. In addition, we found that the response date from Green River LWIA was not dated and no determination could be made regarding timeliness. Four additional late LWIA responses were not considered exceptions because DTR provided documentation of consistent follow-up or granted an extension to the LWIA as permitted by their monitoring procedures.

The federal regulations for WIA require monitoring of subrecipients. Specific monitoring policies are to be set by the monitoring agency. DTR has determined the internal policies regarding the timing of monitoring site visits, issuance of reports, and guidelines for response deadlines in order to comply with the federal regulations. These policies have been outlined in Information Memo #496, dated December 1, 1995. These policies were reissued July 18, 2000 as Information Memo #33. The auditor has determined that the above-mentioned exceptions are in violation of the Department for Training and Re-employment policy.

Recommendation

The continued occurrence of late reports and subrecipient responses indicates that corrective procedures implemented in response to the FY 1998 finding have not sufficiently corrected the problem. The auditor recommends that DTR review procedures currently in place and implement procedures to ensure that all monitoring reports are issued in a timely manner.

Management's Response And Corrective Action Plan

The Department for Training and Re-Employment (DTR) accepts the findings of this report. DTR has minimal staff; therefore, the monitors are not an independent monitoring unit and do shoulder additional responsibilities beyond the scope of monitoring. This does, at times, become a deterrent to the established monitoring procedures.

**CABINET FOR WORKFORCE DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Other Matters Relating To Internal Controls And/Or Compliance: (Continued)

FINDING 00-CWD-9: The Department For Training And Re-employment Should Review Procedures Currently In Place And Implement Procedures To Ensure All Monitoring Reports Are Issued In A Timely Manner (Continued)

Management's Response And Corrective Action Plan (Continued)

DTR will establish and maintain a more thorough "tickler system" of tracking and notification of timeframes for monitoring reports. Upgrading of the system will include, but not be limited to, notifying the LWIA's one week prior to report responses being due and maintain a copy of the notification in the appropriate report file. The monitors will be more cognizant of the thirty-day branch imposed timeframe for the issuance of initial reports.

Prior to the receipt of this report, the monitoring branch staff had begun dialogue regarding the revamping of current monitoring procedures.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**CABINET FOR WORKFORCE DEVELOPMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 99	99-CWD-6	The Office Of Training And Re-employment Should Ensure Federal Reports Can Be Verified Through Supporting Documentation	17.250 and 17.246		Resolved during FY 2000
FY 97	97-WFDC-53	The Cabinet For Workforce Development Should Ensure The Job Training Partnership Act Complies With Earmarking Requirements	17.246	\$ 42,039	During FY 2000, the DES paid \$102,585 to the U.S. Department of Labor.
FY 98				60,546	
FY 00				<102,585>	
				<hr/> \$ 0 <hr/>	
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 99	99-CWD-1	The Division Of Unemployment Insurance Should Perform Regular Cash Reconciliations To Safeguard Assets	N/A	\$ 0	Finding not resolved. See finding 00-CWD-1
FY 99	99-CWD-2	The Division Of Unemployment Insurance Should Strengthen Controls Over Cash	N/A	0	Finding not resolved. See finding 00-CWD-2
FY 99	99-CWD-7	The Department For Employment Services Should Implement Controls To Ensure All Applicable Regulations And Program Policies Are Followed In Their Administration Of Federal Programs	17.246	\$ 613,950	DES requested and received clarification from DOL. As a result, they cleared a portion of the finding related to possible violation of cost limitations. Questioned costs remained.

**CABINET FOR WORKFORCE DEVELOPMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions</u> (Continued)					
<i>(2) Audit findings not corrected or partially corrected: (Continued)</i>					
FY 99	99-CWD-8	The Division Of Unemployment Insurance Should Ensure Supporting Documentation Used In Preparation Of Federal Reports Is Accurate	17.225		Improvements have been made in FY 2000 regarding ETA 581. However, the process of making adjustments before the payments are audited has not stopped completely. The findings related to ETA 191 and 2112 will be reported as a reportable condition since the agency's response was materially misrepresented. See Finding 00-CWD-7.

(3) Corrective action taken is significantly different from corrective action previously reported:

There are no findings to report in this category.

(4) Audit finding no longer valid:

There are no findings to report in this category.

**CABINET FOR WORKFORCE DEVELOPMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Material Weakness/Noncompliance</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 99	99-CWD-10	The Department For Adult Education And Literacy Should Ensure Applicable Subrecipient Audits Are Performed And That Prompt Action Is Taken On Audit Findings	84.002	0	Resolved during FY 2000
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 99	99-CWD-3	The Division Of Unemployment Insurance Should Ensure Computer Accounting Systems Are Operating Effectively And Amounts Reported From Those Systems Can Be Supported	N/A	0	This finding was not resolved during FY 2000. The agency's corrective action plan was materially misrepresented. See 00-CWD-3.
FY 99	99-CWD-9	The Office Of Training And Re-employment Should Comply With JTPA Regulations And OMB Circular A-133 Regarding Resolution Of Subrecipient Audit Findings	17.246 17.250	0	This finding has been noted again; however, we believe the finding is a reportable condition for FY 2000. We also believe the auditee's corrective action plan was materially misrepresented. See 00-CWD-6
FY 99	99-CWD-11	The Kentucky Office Of School To Work Should Comply With School To Work And OMB Circular A-133 Subrecipient Monitoring Requirements	84.278	0	This finding has been partially resolved in FY 2000. We found the agency's contracts with LLMA's were not accurate. We consider this a reportable condition for FY 2000.

(3) Corrective action taken is significantly different from corrective action previously reported:

There are no findings to report in this category.

**CABINET FOR WORKFORCE DEVELOPMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Material Weakness/Noncompliance (Continued)</u>					
<i>(4) Audit finding no longer valid:</i>					
FY 93	N/A	The Cabinet For Workforce Development Had Questioned Costs Of \$372,383 For Fiscal Years Ended June 30, 1993	Multiple Programs	\$ 372,383	DES resolved an additional \$198,641 during FY 2000.
FY 97				(73,749)	This left a balance of \$60,739.
FY 98				(39,254)	We have deemed this finding is no longer valid due to the following:
FY 00				(198,641)	
<hr/>					
Total Questioned Costs				<u>\$ 60,739</u>	<ul style="list-style-type: none">• When this finding was originally reported, CWD was part of a larger cabinet. Some of the unresolved costs could be attributed to other cabinets.• DES has not had any more questioned costs related to this issue.• WIA has replaced JPTA in FY 2000. DES is not a subrecipient of any WIA Funds.

**CABINET FOR WORKFORCE DEVELOPMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matter Comments</u>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 97	97-WFDC-4	The Cabinet For Workforce Development Should Ensure	N/A	0	Resolved per IT Division
FY 98		The Security Of Confidential Documents			
FY 99					
FY 97	97-WFDC-5	The Cabinet For Workforce Development Should Develop	N/A	0	Improved - verbal comment issued per IT Division
FY 98		A Formal Disaster Recovery Plan			
FY 99					
FY 98	98-WFDC-13	The Office Of Training And Re-employment Should Ensure Federal Reports Can Be Verified Through Supporting Documentation	17.250 17.246	0	Resolved during FY 2000
FY 99	99-CWD-5	The Division Of Unemployment Insurance Should Implement Controls to Ensure The Accuracy Of Accounting Records And To Prevent Unintended Changes To The Records	N/A	0	Resolved during FY 2000
FY 99	99-CWD-12	The Department For Employment Services Should Implement Controls To Ensure Administrative Expenditures Are Properly Classified	17.246	0	Resolved during FY 2000

**CABINET FOR WORKFORCE DEVELOPMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matter Comments (Continued)</u>					
<i>(1) Audit findings that have been fully corrected: (Continued)</i>					
FY 99	99-CWD-4	The Division Of Unemployment Insurance Should Establish Procedures To Account For Services Capacity Upgrade Funds Per The Requirements Of KRS 341.243	17.225	0	Resolved during FY 2000
FY 99	99-CWD-13	The Kentucky Office Of School To Work Should Implement Controls To Ensure The Maintenance Of Supporting Documentation For All Expenditures	84.278	0	Resolved during FY 2000
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 96	96-WFDC-1	The Cabinet For Workforce Development Should Comply With JTPA Financial Management Guide And OMB Circular [A-128 For FY 96] By Properly Monitoring And Resolving Subrecipient Audit Findings	17.250	0	See 99-CWD-9
FY 98	98-WFDC-3	The Cabinet For Workforce Development Should Implement Controls To Ensure That Bank Statements Are Reconciled Each Month	N/A	0	Finding not resolved. Reclassified as reportable in FY 1999. See finding 99-CWD-1.
FY 98	98-WFDC-4	The Cabinet For Workforce Development Should Ensure That All Write-Offs From Accounts Receivable Are Properly Authorized Prior To Processing	N/A	0	Exception were noted during the FY 1999 and 2000 audits; therefore, it appears additional controls were not implemented.

**CABINET FOR WORKFORCE DEVELOPMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000
(CONTINUED)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Other Matter Comments (Continued)</u>					
<i>(2) Audit findings not corrected or partially corrected: (Continued)</i>					
FY 98	98-WFDC-7	The Cabinet For Workforce Development Should Ensure That Agency Records Are Properly Reconciled To Statistical Data	N/A	0	Finding not resolved. Reclassified as reportable in FY 1999. See finding 99-CWD-1.
FY 98	98-WFDC-9	The Cabinet for Workforce Development Should Properly review Federal Reports and Supporting Documentation For Accuracy (ETA 581)	17.225	0	See 99-CWD-8
FY 98	98-WFDC-12	The Cabinet For Workforce Development Should Implement Controls To Ensure That All Subrecipient Monitoring Reports Are Issued Timely	17.250 and 17.246	0	A repeat finding was issued in FY 2000.

3) Corrective action taken is significantly different from corrective action previously reported:

There are no findings to report in this category.

(4) Audit finding no longer valid:

There are no findings to report in this category.

